

Can Macklem be Canada's finance climate champion?

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Body

Tiff Macklem, the Bank of Canada's new governor, is starting his seven-year term at a critical time in the fight against climate change.

While people mostly associate Canada's central bank with setting monetary policy, assuring price stability and promoting economic growth, its mandate - as defined in the Bank of Canada Act - is actually much wider. According to the Act, BoC's role is: "generally, to promote the economic and financial welfare of Canada."

Since there is no doubt that climate change has and will have a growing impact on the economic welfare of Canadians, the bank and its head need to be seriously involved.

But how exactly and to what extent?

For Macklem, two prominent bankers can serve as an example and also as future partners. The first is Christine Lagarde, appointed as head of the European Central Bank in November after leading the International Monetary Fund for eight years. As reflected in some of her recent speeches, Lagarde has included climate change as one of her top priorities.

"My personal view is that any institution has to actually have climate change risk and protection of the environment at the core of their understanding of their mission," she said, going as far as expressing that for her, "climate change and environmental risk are mission-critical."

The second banker is none other than Macklem's former boss at the BoC, Mark Carney. The top banker, who served both as governor at both the Bank of Canada and later the Bank of England, is currently the United Nations' special envoy on climate action and finance.

Carney is a climate champion and helped establish the Network for Greening the Financial System, a growing forum where central banks and supervisors can exchange views and best practices with regards to climate-related risks for the financial sector and the development of green finance. Currently, NGFS consists of 66 members and 12 observers, with the BoC as one of its members.

But climate action isn't new to the incoming BoC governor. While serving in his previous job as dean of the University of Toronto's Rotman School of Management, Macklem was head of Canada's Expert Panel on Sustainable Finance, which delivered a detailed report last year to the minister of environment and climate change and the minister of finance.

The panel came up with 15 policy recommendations, some of them directly addressed to the BoC. Recommendation 8, for example, is to embed climate-related risk into monitoring, regulation and supervision of Canada's financial system. It endorses the BoC's decision to build climate-related risks into its Financial System

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Review process and develop a multi-year research plan focused on climate-related risks to the macroeconomy and the financial system.

In recommendation 10, the panel suggests promoting sustainable investment as business-as-usual within Canada's investment industry, and calls on the BoC to convene with Canadian asset managers to exchange information on climate-related risks.

Macklem put this recommendation in his own words in an address in Toronto last year: "Put simply, climate-conscious risk management and investment need to be part of the everyday savings and investment decisions made by individuals and businesses across Canada."

I asked former BoC economist Michael King, now associate finance professor at the University of Victoria's Gustavson School of Business, where he thinks Macklem can have the most impact when it comes to climate change?

"The BoC can be viewed as the government's think tank," King explained. "The BoC's research capacity, access to data, and resources are unique in Ottawa. By researching climate risks, adaptation and sustainable finance, the BoC can inform the development of new policies by Finance Canada and the Office of the Superintendent of Financial Institutions (OSFI) - the federal regulator of banks, financial institutions and pension funds in Canada."

Another place where BoC's tenth governor can set a greener tone is in discussions with federal and provincial authorities through financial-system committees such as the Heads of Regulatory Agencies (HoA). The HoA is a federal-provincial forum for the discussion of financial sector issues that is chaired by the BoC Governor.

"Sitting together with members of Finance Canada, OSFI, and the provincial securities commissions, Governor Macklem can make sure that sustainable finance and climate change are high on the agenda," King added.

As an advocate for the environment, Macklem will have the opportunity to use his powerful position and extensive network to promote a greener Canadian financial landscape.

Governor Macklem: we need your leadership on climate change. Don't miss the opportunity to emerge as Canada's finance climate champion.

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